

Message Text

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12

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03 NSAE-00

NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20 USIA-15 AID-20

COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 AGR-20 DRC-01 /183 W

----- 129656

R 221815Z MAY 74

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 4531

INFO USOECD PARIS 605

SECDEF WASHDC

COMICEDEFOR

CINCLANT

US MISSION NATO 708

AMEMBASSY COPENHAGEN

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

UNCLAS REYKJAVIK 0709

E.O. 11652: N/A

TAGS: ECON IC

SUBJECT: ADDITIONAL ECONOMIC MEASURES TAKEN

REF: REYKJAVIK 688 (NOTAL)

1. GOI MAY 21 ANNOUNCED FINAL MEASURES IN ECONOMIC PROGRAM DESIGNED TO CONTROL INFLATION AND BRING HALT TO RAPID DECLINE IN FOREIGN EXCHANGE RESERVES. LATEST STEPS INCLUDE COMPLETE WAGE AND PRICE FREEZE THROUGH AUGUST 31, THUS ELIMINATING APPROX. 13 PERCENT WAGE INCREASE DUE JUNE 1 AS RESULT OF RISE IN COST-OF-LIVING INDEX. LESS SIGNIFICANT MEASURE DEALING WITH OPERATIONS OF LOCAL INVESTMENT FUNDS ALSO IMPLEMENTED.

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2. PREVIOUSLY ANNOUNCED MEASURES INCLUDED (A) 4 PERCENT DEVALUATION

OF KRONA; (B) 3-MONTH DEPOSIT WITH CENTRAL BANK OF 25 PERCENT OF
COST OF ALL IMPORTS (WITH CERTAIN EXCEPTIONS); (C) AN INCREASE
OF 10 PERCENT IN SURCHARGE ON AUTOMOBILE IMPORTS; (D) AN EXTENSIVE
INCREASE IN AGRICULTURAL SUBSIDIES, LOWERING PRICES ON LOCAL DAIRY
PRODUCTS, MEAT, AND POTATOES BY ABOUT 30 PERCENT; (E) INCREASE
IN PRICE OF ALCOHOL AND TOBACCO BY 15 PERCENT, BREAD BY 26
PERCENT, GASOLINE BY 6 PERCENT AND WHOLESALE PRICE OF ELECTRICITY
BY 38 PERCENT. NOTABLY ABSENT WERE INCREASES IN INTEREST RATES
AND ANY ROLLBACK IN PREVIOUSLY GRANTED WAGE INCREASES. ORIGINAL
GOVERNMENT BILL WHICH LEAD TO DISSOLUTION OF PARLIAMENT HAD CALLED
FOR LIMITING TO 20 PERCENT THE WAGE INCREASES GRANTED IN MARCH.
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